# The Real Estate TRENDS

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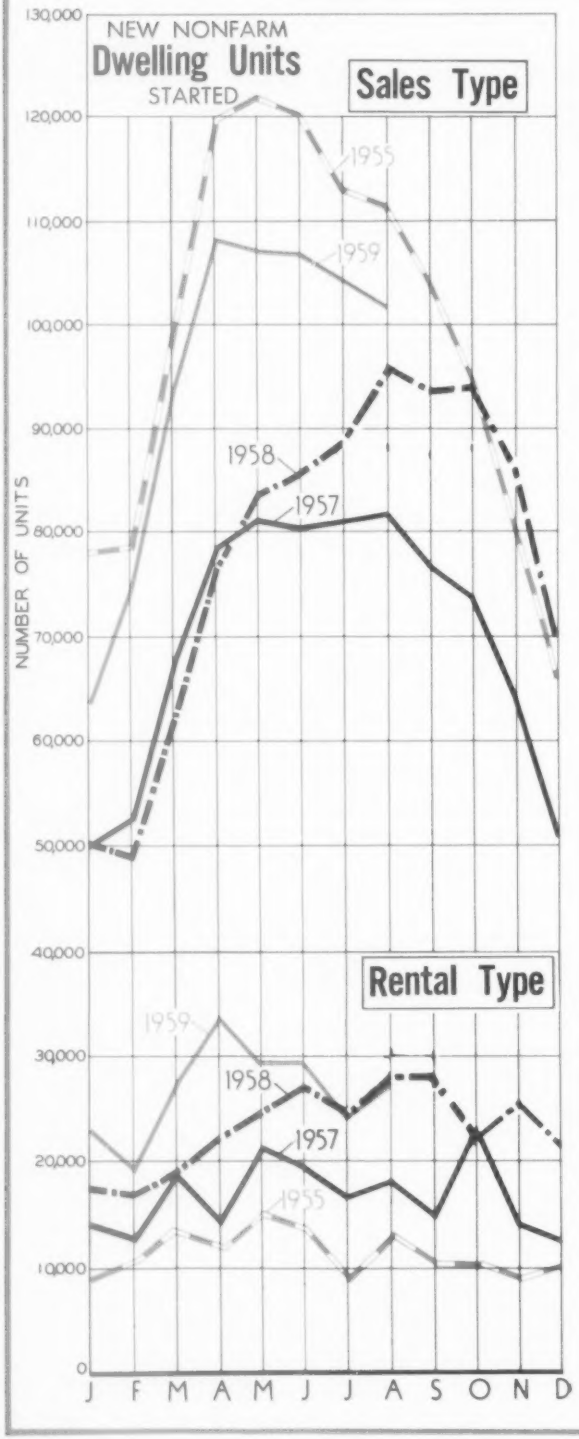
## THE REAL ESTATE SURPRISE

REAL estate activity continues to hold its own despite tight money, the steel strike, and economists. On October 14, 1959, the following statement appeared in the Wall Street Journal, "Johns-Manville Corporation officials estimate that 1,380,000 new dwelling units will be started this year, or 20,000 more than they forecast at mid-year. This is the third upward revision they have made in 1959." On October 23, Housing Administrator Norman Mason was quoted as saying that housing starts would top 1,300,000 in 1959. The Wall Street Journal commented, "Mr. Mason's estimate is the first official recognition that private housing starts this year would be higher than the 1,200,000 Government housing officials have been predicting."

Tight money continues to push interest rates higher. During the week of October 17, the rate on 91-day Treasury bills rose to an all-time high of 4.262 percent. Our average mortgage interest rate increased to 5.787 percent from 5.72 percent for the previous month. In addition, the Government's new issue of 5 percent notes points up the stiff competition for savings. The individual savings that the Government obtained through this issue in many cases came from deposits in savings and loan associations and mutual savings banks. These institutions will have to keep their interest rates competitive to prevent a loss of deposits.

Although interest rates have continued to rise, real estate activity has remained almost unchanged around 83.0 voluntary transfers per 10,000 families. The vacancy rate for the third quarter charted on page 473 shows little change from the second quarter. The number of housing starts slipped in September, but not as much as was predicted. If housing starts slack off no more than they did in 1950 and 1955, we could finish this year with 1,370,000 nonfarm dwelling units started. There are probably three reasons for this unexpected strength in the market. The consumer is not as aware of the cost of borrowing as he was in past years because of the amortized loan. Mortgage loans are committed six months to a year in advance of their need. Finally, the development of interim financing of mortgages has enabled mortgage bankers to carry inventories for a short period during a time of tight money until long-term investors are found who are willing to increase their investments in mortgages.



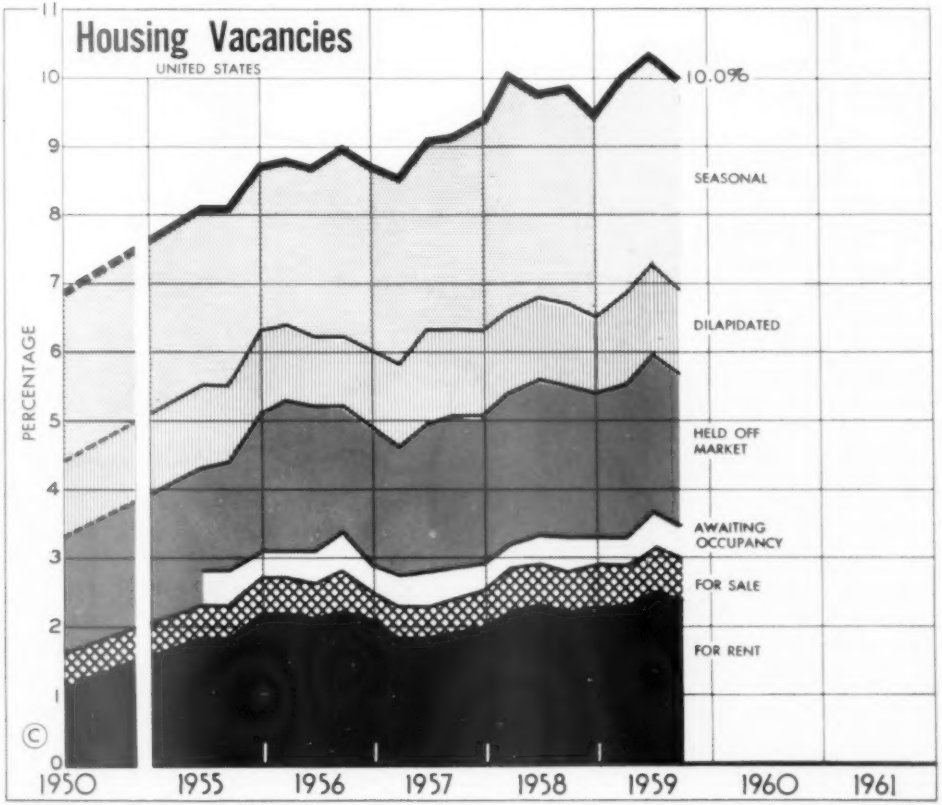

The chart to the left shows the monthly number of new nonfarm dwelling units started by sales and rental type. The sales type includes privately financed one-family units. The rental starts include publicly financed units and privately financed two- or more family dwelling units. Although the number of sales units started each month in 1959 has been below that of 1955, rental starts have been much greater. The number of rental starts has been increasing each year from 1955 to 1959, and there are signs that this trend is continuing because of the encouragement to investors of higher rents. Applications for FHA insurance on new construction increased 10 percent from August to September. However, total home mortgage applications declined 8 percent, while multifamily applications on 5,100 units were more than double the August number.

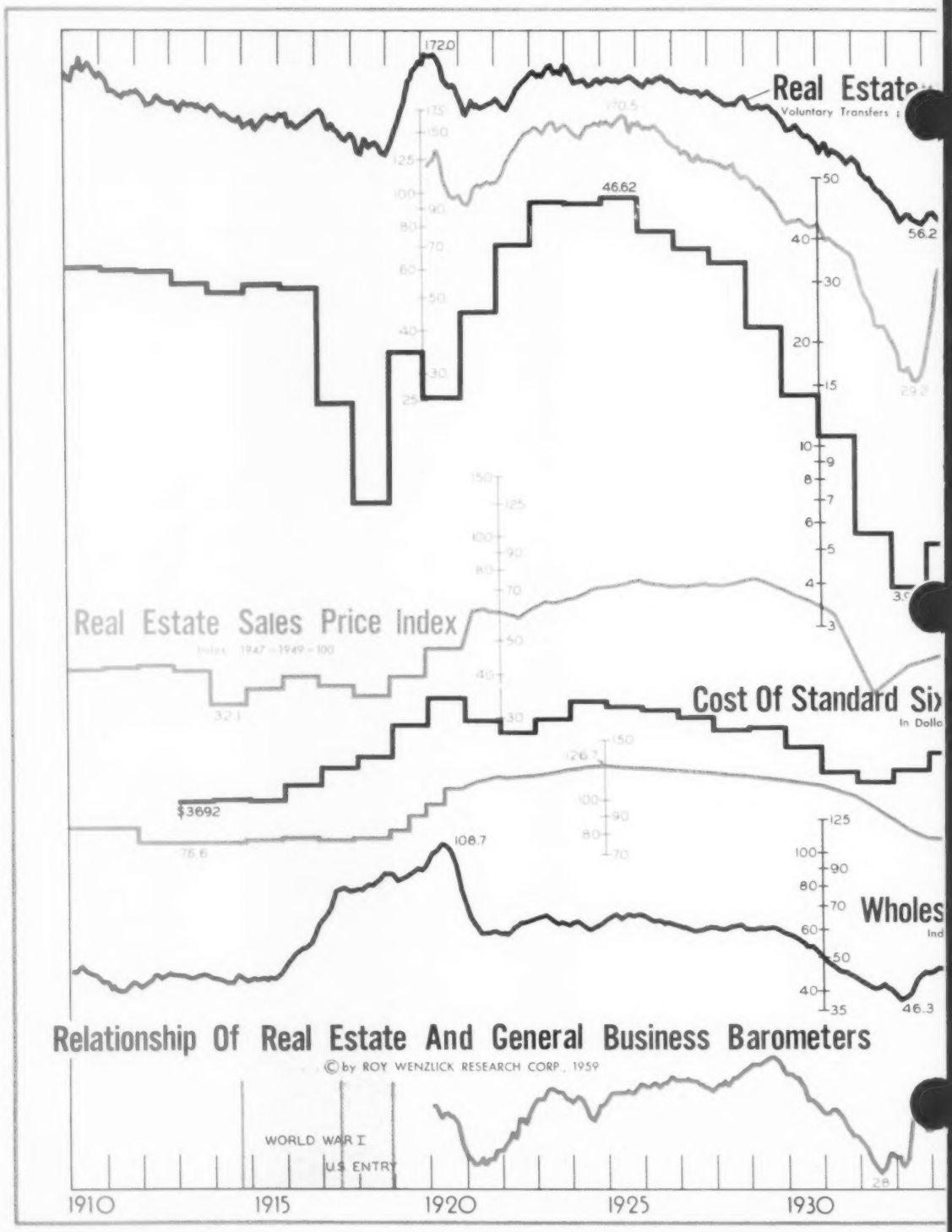
The Federal Reserve Board industrial production index has fallen to 148 from a high of 155 in June. This is due to the steel strike of more than 100 days. A check of steel towns included in our index of real estate activity shows that only Allentown has showed a decrease for the 1959 third quarter compared with that of last year. This is probably because most of the other cities affected by the steel strike have more diversified economies. At least one of the steel towns is thinking of increasing its real estate tax because its earnings taxes are not meeting its needs.

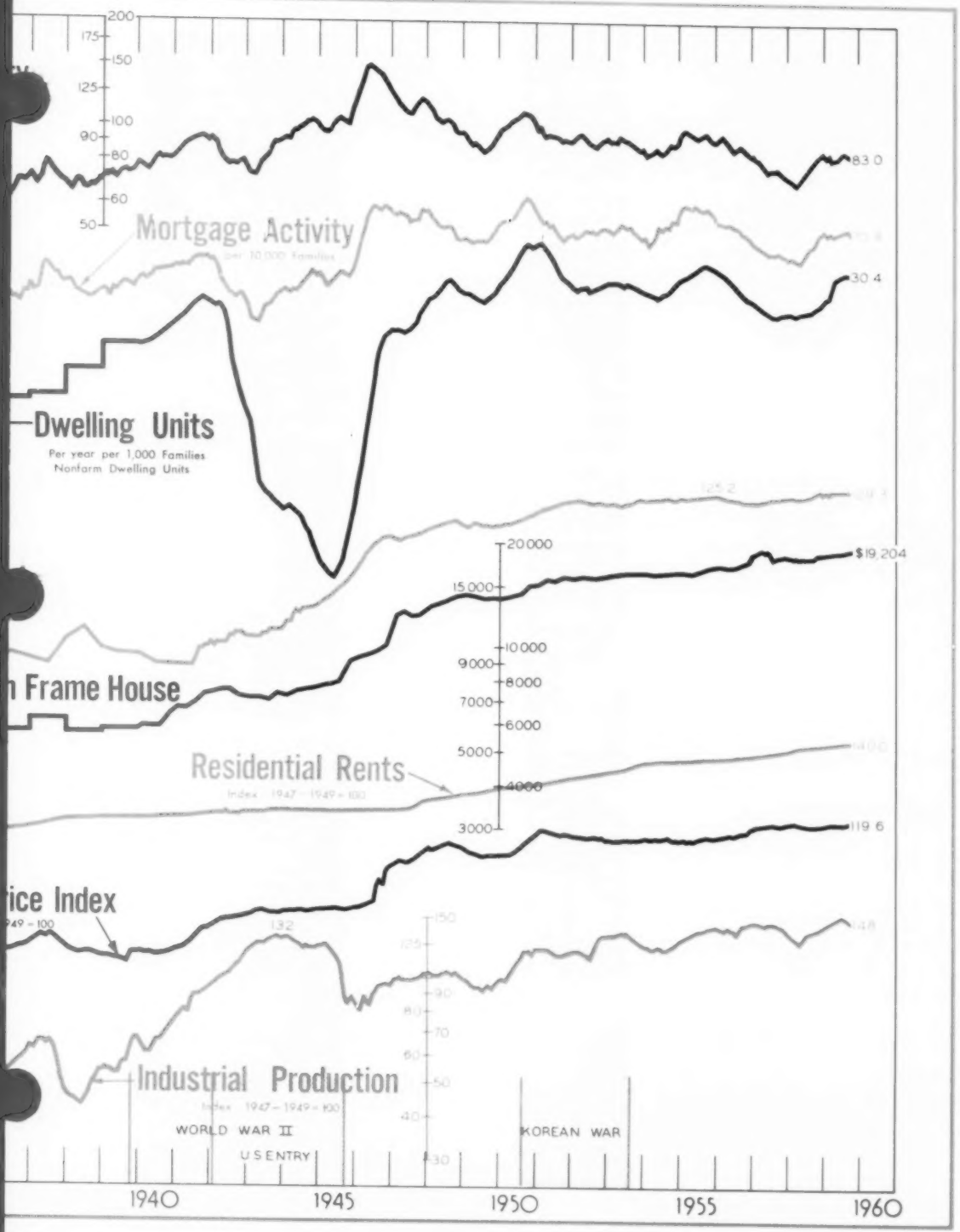
Inflation continues in spite of a few signs of slackening in construction. The effect of inflation on real estate is portrayed vividly by the chart on page 476. The solid red line shows the change in the cost of a new house and lot from 1913 to 1959. It is now $23,752. The solid blue line shows the change in the trend of the selling price of an existing house and lot. It is now $17,735. This chart shows the influence that replacement cost new has on the price of existing housing. However, the dotted red line on this chart is the trend of the selling price of a new house and lot in constant dollars. It is now $7,984 and has increased very little in the past 15 years. The difference between $23,752 and $7,984 in the selling price is due to inflation.

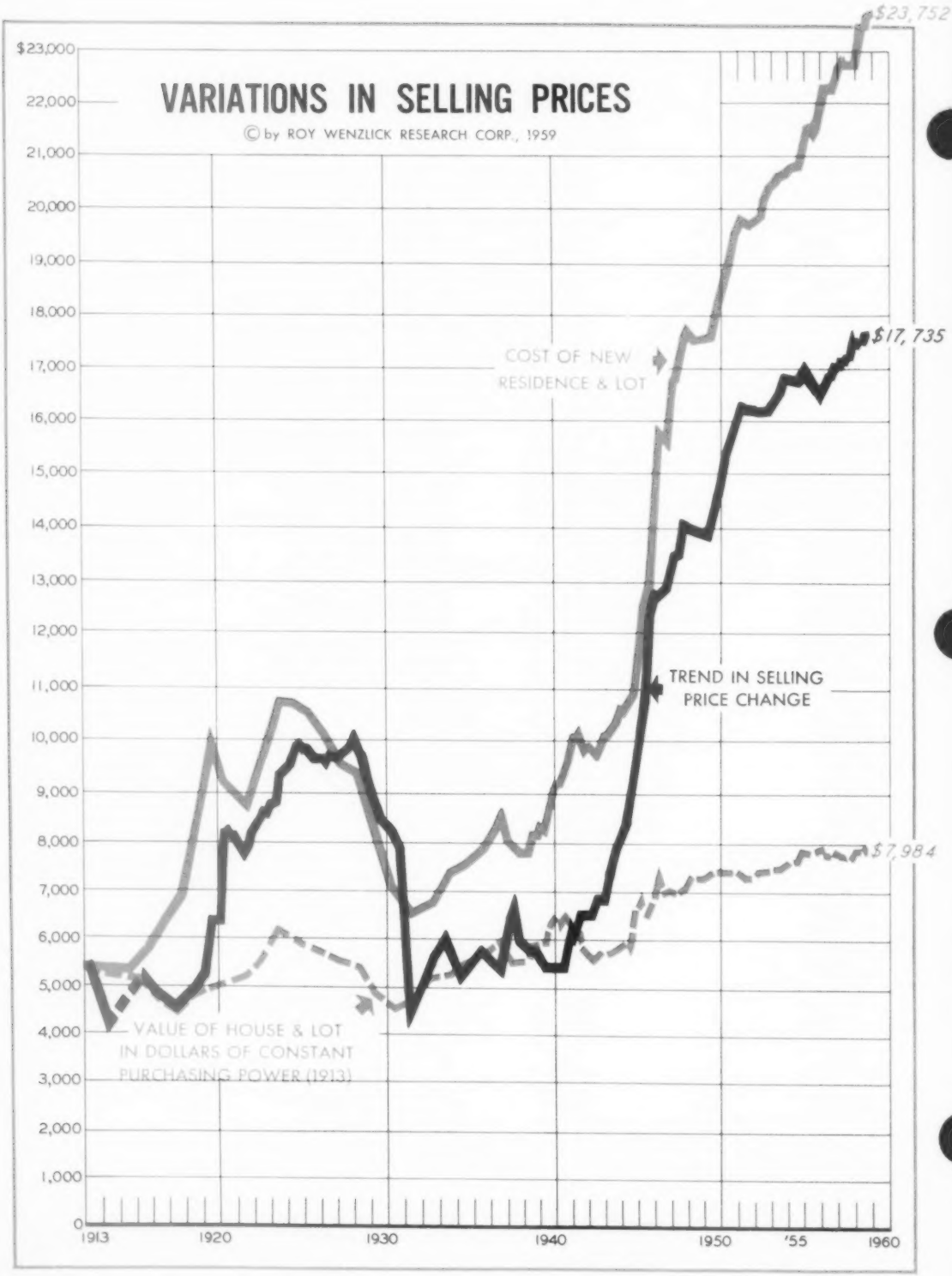
One of the major criticisms of the progressive income tax is that it does not take into consideration the loss of purchasing power due to inflation. The table on page 477 shows the loss of purchasing power due to the progressive income tax rates, even if the 1959 before-tax income had kept pace with the 1942 before-tax income. The two years 1942 and 1959 are selected because tax rates are very similar in these years. The only exception is that the filers of a joint return get a better break today than in 1942. They can now split their

(cont. on page 477)




172.0
Real Estate
Voluntary Transfers
46.62
56.2
Real Estate Sales Price Index
Index 1947 – 1949 = 100
Cost Of Standard Six
In Dollars
$3692
108.7
Wholesale
Index
46.3
Relationship Of Real Estate And General Business Barometers
© by ROY WENZLICK RESEARCH CORP., 1959
WORLD WAR I
U.S. ENTRY
1910
1915
1920
1925
1930


200
175
150
125
100
90
80
60
50
83.0
Mortgage Activity
30.4
Dwelling Units
Per year per 1,000 Families
Nonfarm Dwelling Units
20000
15000
10000
9000
8000
7000
6000
5000
4000
3000
$19,204
Frame House
Residential Rents
119.6
ice Index
132
Industrial Production
WORLD WAR II
U.S. ENTRY
KOREAN WAR
1940
1945
1950
1955
1960


VARIATIONS IN SELLING PRICES
© by ROY WENZLICK RESEARCH CORP., 1959
$23,752
$17,735
$7,984
COST OF NEW RESIDENCE & LOT
TREND IN SELLING PRICE CHANGE
VALUE OF HOUSE & LOT IN DOLLARS OF CONSTANT PURCHASING POWER (1913)
$23,000
22,000
21,000
20,000
19,000
18,000
17,000
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1913
1920
1930
1940
1950
'55
1960

(cont. from page 473)

joint income and thus take advantage of a lower rate. The first column below shows the individual's 1942 before-tax income, net of deductions except personal exemptions. The second column is the income left after the 1942 income tax has been deducted. The third column shows what the after-tax income would have to be in 1959 to be equal in purchasing power to that of 1942. The fourth column shows what the before-tax income would have to be in 1959 to be equal in purchasing power to the before-tax income of 1942. Now applying the 1959 tax rate to these figures and deducting the tax, we find the 1959 after-tax income of the before-tax income which kept pace with the purchasing power of the dollar. In order to find the loss or gain in purchasing power, due to the progressive income tax rates, subtract the fifth column from the third column. This is the last column of figures. For example, a person earning $25,000 before taxes, filing a separate return, would have had $15,290 after Uncle Sam took his share. Today, 1959, $27,400 is needed to equal the purchasing power of $15,290 in 1942. However, if his before-tax net income kept up with the purchasing power of the dollar, his 1959 income would have to be $44,800 in order to equal the $25,000 income of 1942. After taxes this would leave him $22,156 in 1959, but his 1942 after-tax income is equal to $27,400 in current dollars. Thus, he has lost $5,244 in purchasing power because the income tax is progressive and is based on the dollar amount of his income. The tax rate becomes higher even though his higher income this year is the same in purchasing power as his income in 1942.

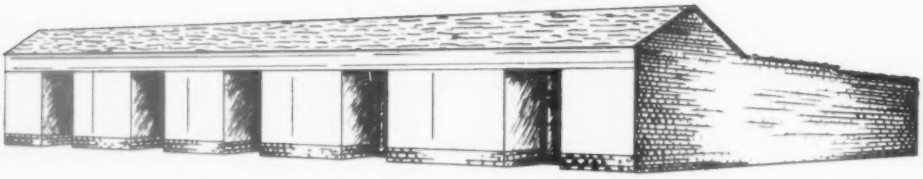
INCOME TAX COMPARISON
1942 and 1959

| 1942 before-tax net income* | 1942 after-tax income | 1959 equivalent purchasing power | 1959 before-tax income equal in purchasing power to 1942 before-tax income | 1959 after-tax income when before-tax income keeps pace with purchasing power | Loss or gain due to progressive income tax rates |
|---|---|---|---|---|---|
| | | | Joint Return | | |
| $ 3,000 | $ 2,658 | $ 4,760 | $ 5,375 | $ 4,537 | $ -223 |
| 5,000 | 4,224 | 7,560 | 8,960 | 7,333 | -227 |
| 8,000 | 6,420 | 11,500 | 14,320 | 11,264 | -236 |
| 10,000 | 7,836 | 14,040 | 17,900 | 13,742 | -298 |
| 25,000 | 15,696 | 28,120 | 44,800 | 28,264 | +144 |
| 50,000 | 24,588 | 44,060 | 89,600 | 44,312 | +252 |
| 100,000 | 35,856 | 64,250 | 179,200 | 63,640 | -610 |
| | | | Separate Return | | |
| 3,000 | 2,510 | 4,500 | 5,375 | 4,333 | -167 |
| 5,000 | 4,050 | 7,260 | 8,960 | 6,878 | -382 |
| 8,000 | 6,210 | 11,130 | 14,320 | 10,180 | -950 |
| 10,000 | 7,550 | 13,530 | 17,900 | 12,050 | -1,480 |
| 25,000 | 15,290 | 27,400 | 44,800 | 22,156 | -5,244 |
| 50,000 | 24,105 | 43,190 | 89,600 | 31,820 | -11,370 |
| 100,000 | 35,275 | 63,210 | 179,200 | 41,640 | -21,570 |

*Before-tax net income is gross income less all deductions except personal exemption.

# INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
October 1959



COMMERCIAL BUILDING - NO BASEMENT
Content: 115,850 cubic feet
8,075 square feet
Cost 1939: $22,726
(19.6¢ per cubic foot; $2.82 per square foot)
Cost today: $73,989
(63.9¢ per cubic foot; $9.16 per square foot)
INCREASE OVER 1939 = 225.6%

For plans and specifications see page 74 of the Wenzlick Building Cost Manual.

18-FAMILY BRICK APARTMENT
(FRAME INTERIOR)*
Content: 168,385 cubic feet
13,260 square feet
Cost 1939: $ 60,300
(35.8¢ per cubic foot; $ 4.55 per sq. ft.)
Cost today: $194,055
($1.15 per cubic foot; $14.63 per sq. ft.)
INCREASE OVER 1939 = 221.8%

For plans and specifications see page 60 of the Wenzlick Building Cost Manual.

30-UNIT REINFORCED
CONCRETE APARTMENT*
Content: 303,534 cubic feet
21,372 square feet
Cost 1939: $135,000
(44.5¢ per cubic foot; $ 6.33 per sq. ft.)
Cost today: $413,877
($1.36 per cubic foot; $19.37 per sq. ft.)
INCREASE OVER 1939 = 206.6%

For plans and specifications see page 68 of the Wenzlick Building Cost Manual.

*Costs include full basement.